2012 REGULAR SESSION
ACTUARIAL NOTE SB 50

Senate Bill 50 SLS 12RS-138 **Enrolled** **Author: Senator Elbert L. Guillory** **Date: June 4, 2012** **LLA Note SB 50.04** **Organizations Affected:** **Sheriffs' Pension and Relief Fund (SPRF)** **EN +2,500,000 APV**	**The Note was prepared by the Actuarial Services Department of the Office of the Legislative Auditor.** Paul T. Richmond, ASA, MAAA, EA Manager Actuarial Services

Bill Header: SHERIFFS PEN/RELIEF FUND. Provides for permanent benefit increases for retirees of the system. (7/1/12)

Cost Summary:

Actuarial Cost/(Savings) to Retirement Systems and OGB	$2.5 million increase in APV
Total Five Year Fiscal Cost	
Expenditures	Increase
Revenues	$0

Estimated Actuarial Impact:

The chart below shows the estimated increase/(decrease) in the actuarial value of benefits, if any, attributable to the proposed legislation. Note: it includes the present value cost of fiscal costs associated with benefit changes. It does **not** include present value costs associated with administration or other fiscal concerns.

Actuarial Cost (Savings) to:	**Increase (Decrease) in The Actuarial Present Value**
All Louisiana Public Retirement Systems	Increase
Other Post Retirement Benefits	$0
Total	Increase

Estimated Fiscal Impact:

The chart below shows the estimated fiscal impact of the proposed legislation. This represents the effect on cash flows for government entities including the retirement systems and the Office of Group Benefits.

EXPENDITURES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-2017**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	Increase	Increase	Increase	Increase	Increase	Increase
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase	Increase

REVENUES	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-2017**	**5 Year Total**
State General Fund	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

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<u>Bill Information:</u>

Current Law

Under current law, no statewide retirement system may grant a permanent benefit increase if the system's funded ratio is less than the target ratio. In general, the target ratio is 100%, minus the number of years until 2016 divided by 30 multiplied by the funded ratio for the system that existed in 1986. In other words, the target ratio gets closer and closer to 100% as the year 2016 approaches.

Under current law, SPRF is allowed to grant a permanent benefit increase only if its funded ratio is greater than or equal to the target ratio and if the system had also experienced an investment gain in the prior year.

SPRF has elected in the past to set its employer contribution rate at a level higher than the amount actuarially required. It has done so in order to stabilize contribution requirements and to build up a reserve that may be useful in future years. Additional amounts so contributed have been retained in a fund known as the Funding Deposit Account. The balance in the Account on June 20, 2011 was $13,680,020.

Under current law, SPRF may use the Funding Deposit Account to:

1. Reduce the UAL.
2. Reduce the present value of future normal costs.
3. Pay all or a portion of any future net direct employer contributions.

Proposed Law

SB 50 will allow SPRF to grant a permanent benefit increase when it might otherwise not have been able to do so. SPRF will be able to grant a permanent benefit increase even if its funded ratio is less than the target ratio or if it has not experienced an actuarial gain.

SPRF will be allowed to grant a permanent benefit increase, regardless of the funded ratio limitation and regardless of the investment gain limitation, as long as there are sufficient funds in its Funding Deposit Account to pay for such an increase.

Implications of the Proposed Changes

SB 50 will allow SPRF to grant a permanent benefit increase when it might otherwise not have been able to do so.

<u>Cost Analysis:</u>

Analysis of Actuarial Costs

Retirement Systems

SPRF had $13.7 million in its Funding Deposit Account on June 30, 2011. The SPRF board elected to use a portion of the Account to reduce contribution requirements for FY 2012. Instead of charging employers the 13.75% rate adopted by PRSAC, the board elected, as it is permitted under current law, to charge employers only 12.50% of pay. As a result, the balance in the account on June 30, 2012 is expected to be only about $5.0 million. The board has further elected to charge employers 13.25% of pay for FY 2013, a rate that is 0.5% less than the 13.75% rate adopted by PRSAC. This action will reduce the balance in the Funding Deposit Account to about $2.5 million.

The system is allowed to provide a permanent benefit increase in any given year up to 3% of a member's benefit. The estimated cost to provide such a benefit is about $24.5 million. If the board is allowed to use these funds under SB 50 to provide a permanent benefit increase to retirees, the maximum benefit adjustment that could be given is only 3 tenths of one percent. The board has discussed using the remaining funds in the Account to reduce employer contribution requirements for FY 2014. Given that the benefit increase would be so small, it is perhaps more probable that the board will use the remaining funds to reduce employer contribution requirements than to increase retiree benefits even if SB 50 is enacted. Nevertheless, that decision has not yet been made; enactment of SB 50 will permit the board to use $2.5 million for retiree benefit increases if it chooses to do so.

Other Post Retirement Benefits

There are no actuarial costs associated with SB 50 for post-retirement benefits other than pensions.

Analysis of Fiscal Costs

The effect of SB 50 on Expenditure and Revenues are summarized below:

Expenditures:

1. Expenditures from SPRS (Agy Self-Generated) will increase because benefit payments will be larger.

2. Expenditures from Local Funds will not increase, because the benefit improvement has already been paid for through employer contributions that were made before the benefit grant occurred.

Revenues:

1. SPRF revenues (Agy Self-Generated) will not change because there is no need to increase employer contribution requirements.

Actuarial Credentials:

Paul T. Richmond is the Manager of Actuarial Services for the Louisiana Legislative Auditor. He is an Enrolled Actuary, a member of the American Academy of Actuaries, a member of the Society of Actuaries and has met the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Dual Referral:

Senate	**House**
[x] 13.5.1 ≥ \$100,000 Annual Fiscal Cost	[x] 6.8(F) ≥ \$500,000 Annual Fiscal Cost
[ ] 13.5.2 ≥ \$500,000 Annual Tax or Fee Change	[ ] 6.8(G) ≥ \$500,000 Annual Tax or Fee Change